



CHARTBOOK Market Comment

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Market Comment

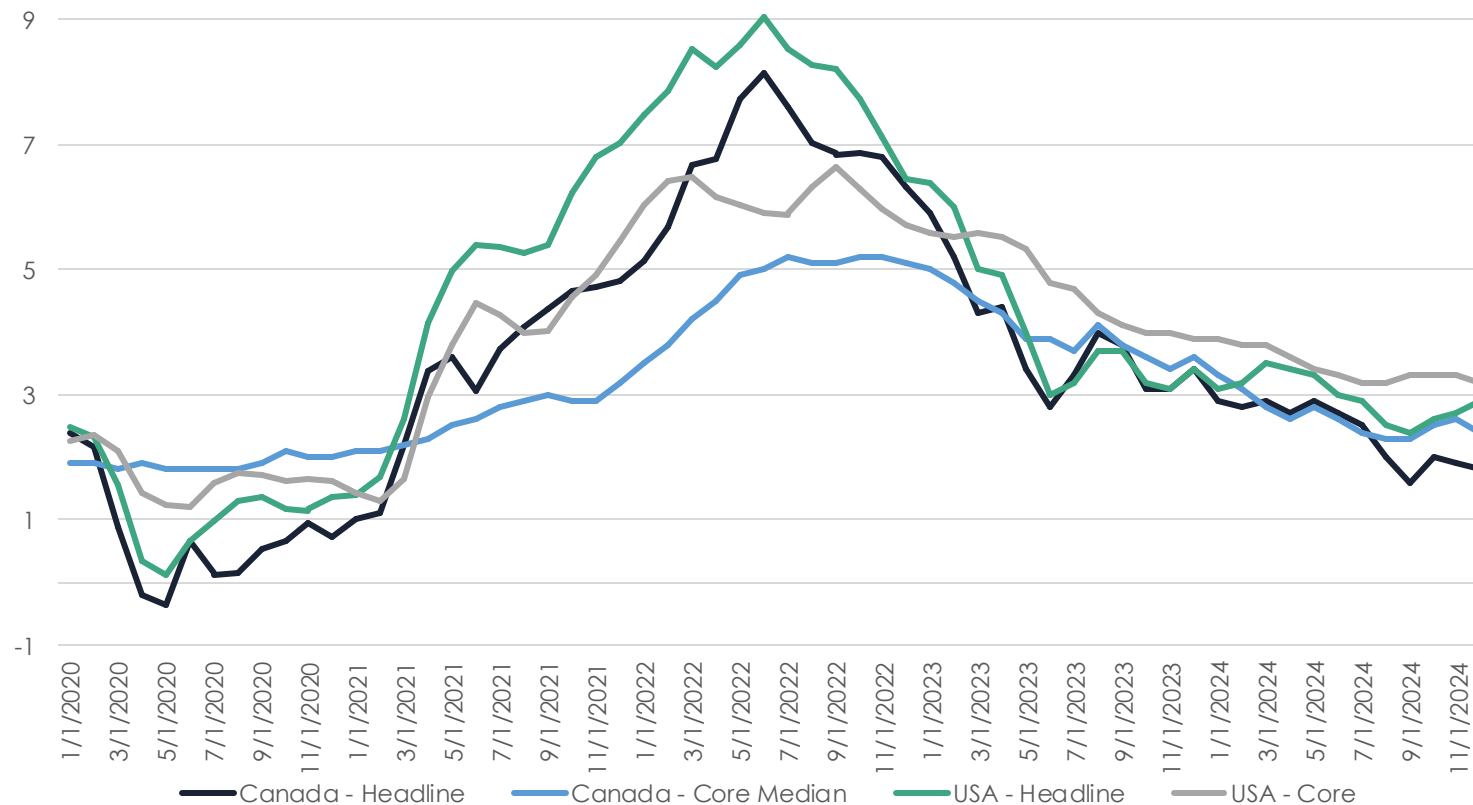
January brought the return of Donald Trump to the White House, and with it the return of headline related volatility and risk. Once again, a single social media post move global markets by trillions of dollars in value. The launch and subsequent pause of the trade war Trump launched against Canada and Mexico is both a reminder and a sign of the volatility that investors can expect for the foreseeable future.

Last week, the Bank of Canada lowered its policy interest rate to 3.0% and suspended its forward guidance due to the uncertainty surrounding the implantation of tariffs on Canadian exports to the US. Nevertheless, growth remains weak in Canada (the bank projects a 1.8% annualized growth rate for Q4 of 2024) and markets expect a further three cuts from the BoC in 2025.

Also last week, the Federal Reserve held its rate steady after cutting by 50 basis points at its prior meeting. This wide differential in rates between the Fed and BoC is a big contributor to the weakness we have seen in the Canadian Dollar, which was further hurt by the tariff threats before it rallied on the announcement that they would be paused.

Inflation

CPI Year-Over-Year Change (%)



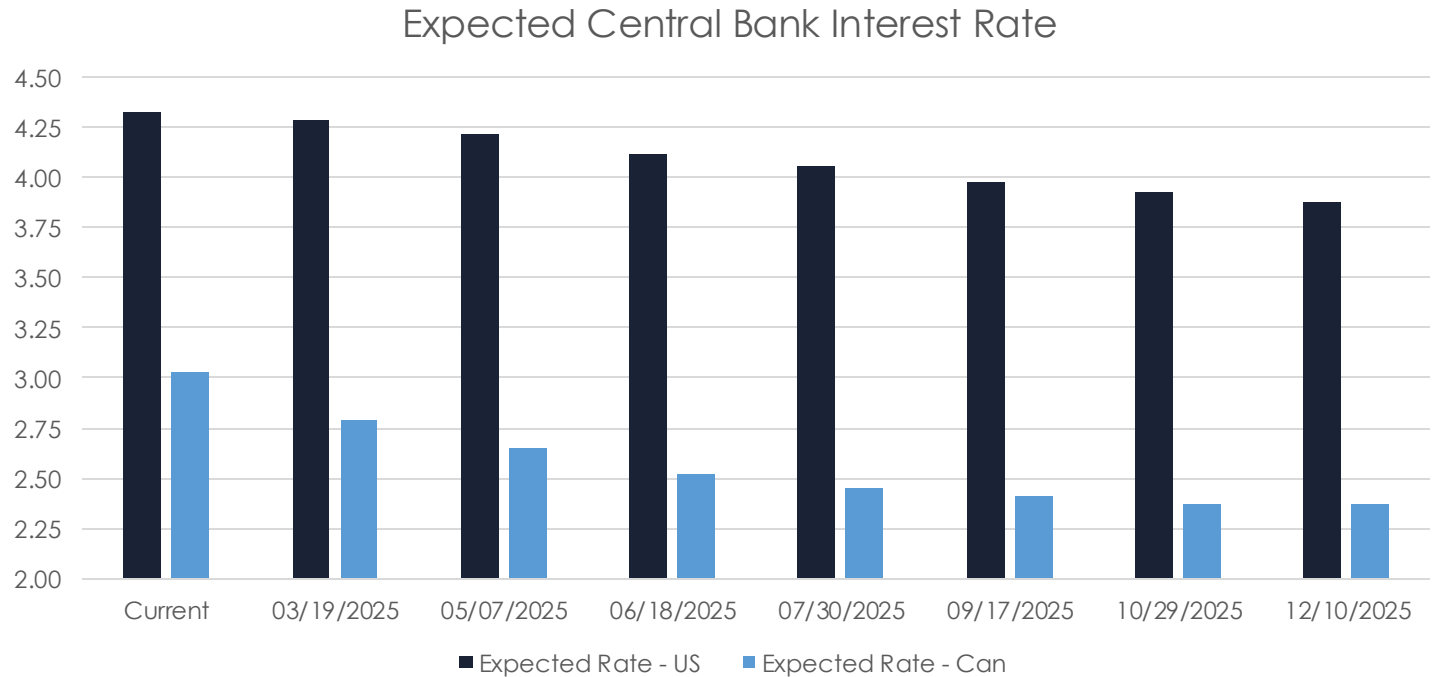
CPI inflation is hovering around the 2% range in Canada and the 3% range in the US, where it has been stickier than it has in Canada.

This higher US inflation, combined with stronger growth in the US are the reasons for the higher interest rate from the Federal Reserve.

“Headline” inflation refers to measures that include all components. Measures of “Core” inflation exclude certain outlier components which have high variability month-to-month or year-to-year.

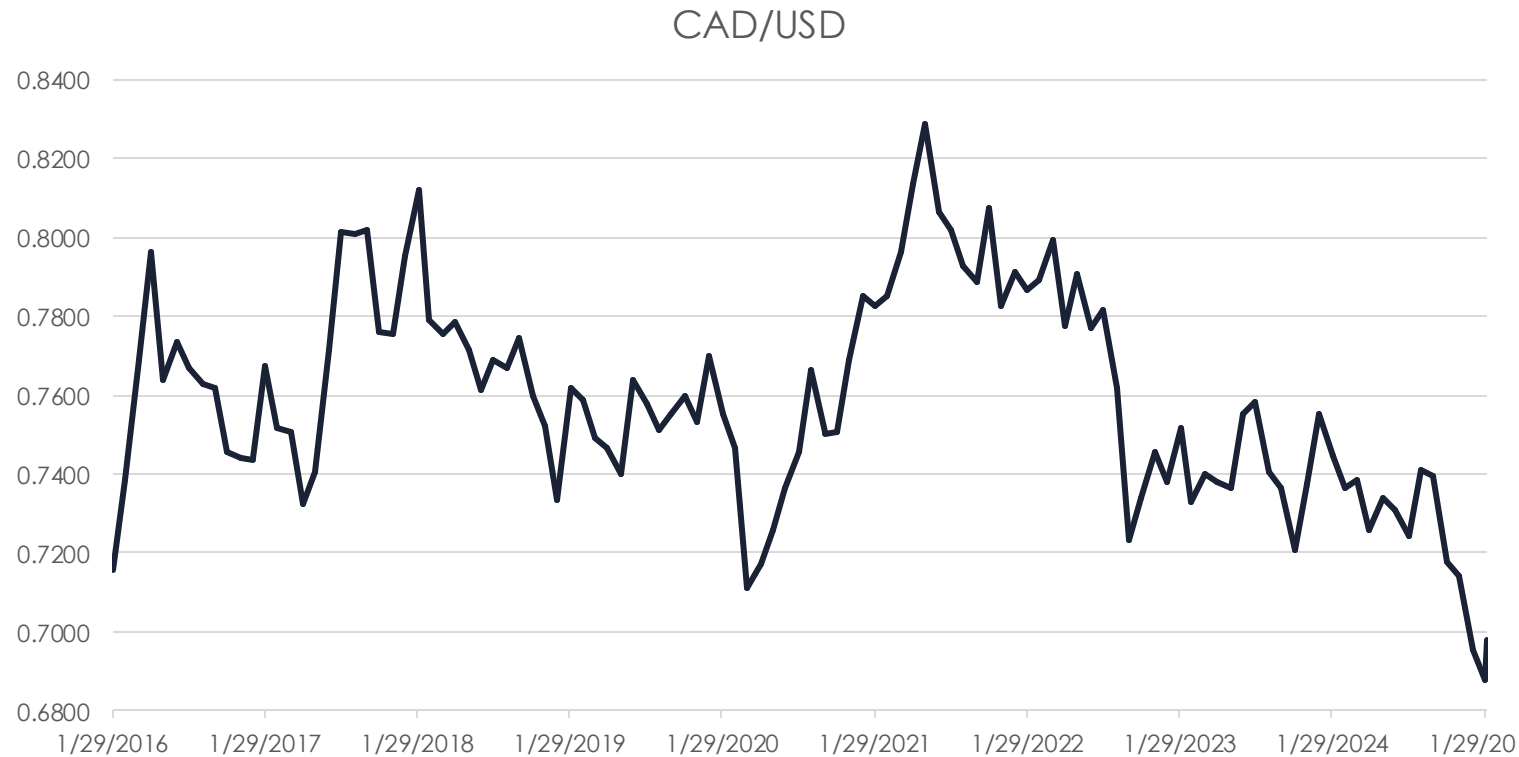
Interest Rate Expectations

By December 2025, central bank policy interest rates are expected to fall to about 2.25% in Canada and 3.75% in the US.



Data: Overnight Index Swap markets as of February 4, 2025

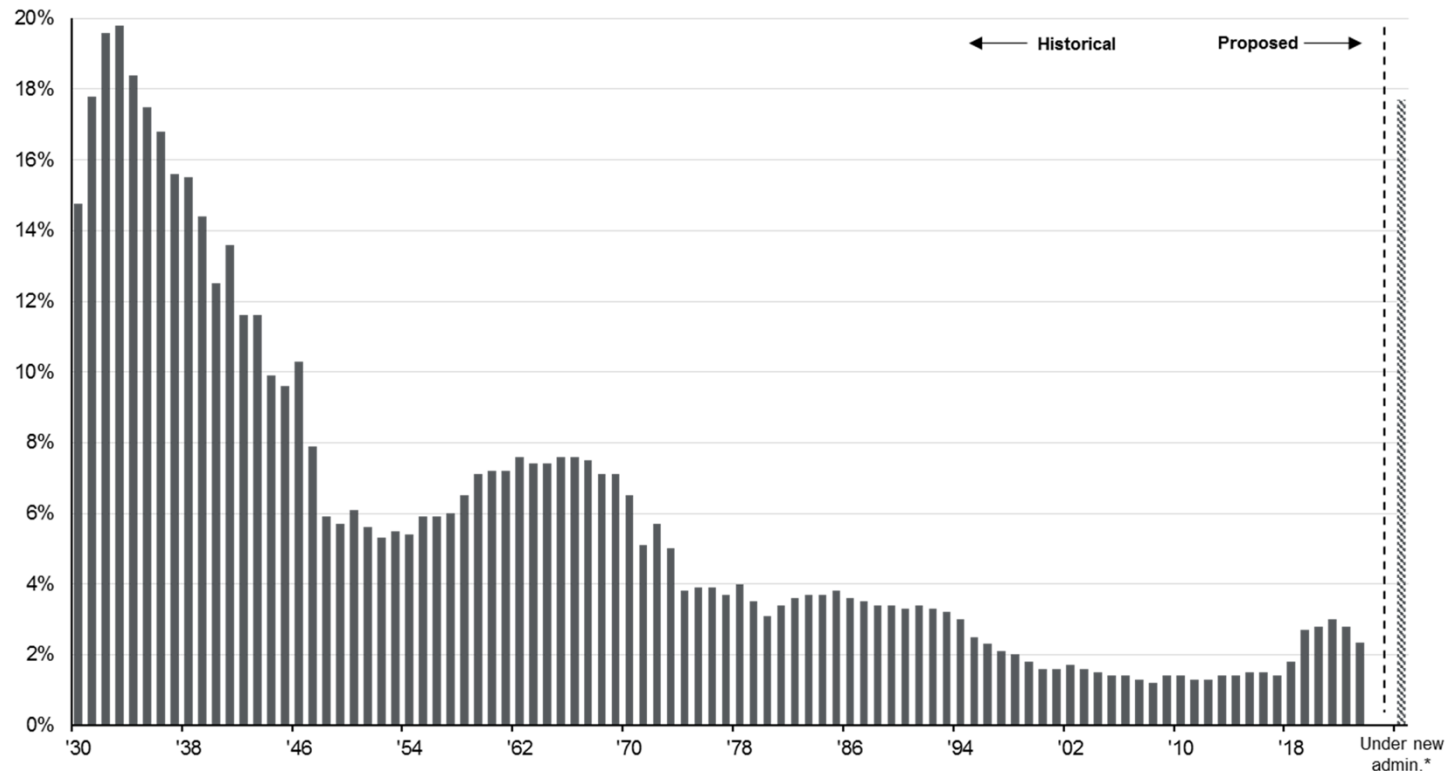
Canadian Dollar



The Loonie fell to a low of \$0.6877 against the US Dollar before rallying to close at \$0.6984 on Tuesday afternoon. In the short-term, this is likely to fluctuate based on the status of trade/border negotiations between Canada and the US.

History of Tariff Rates

Average tariff rate on U.S. goods imports for consumption
Duties collected / value of total goods imports for consumption

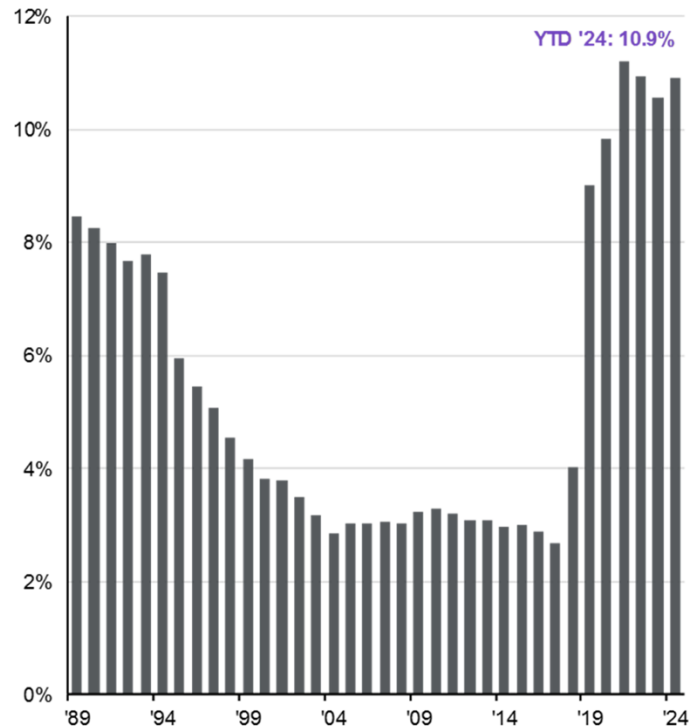


The proposed tariff rate from the Trump administration is unheard of since the 1930's, an era of economic protectionism and nationalism. The post-war period has been largely characterized by the lowering of trade barriers.

US Imports

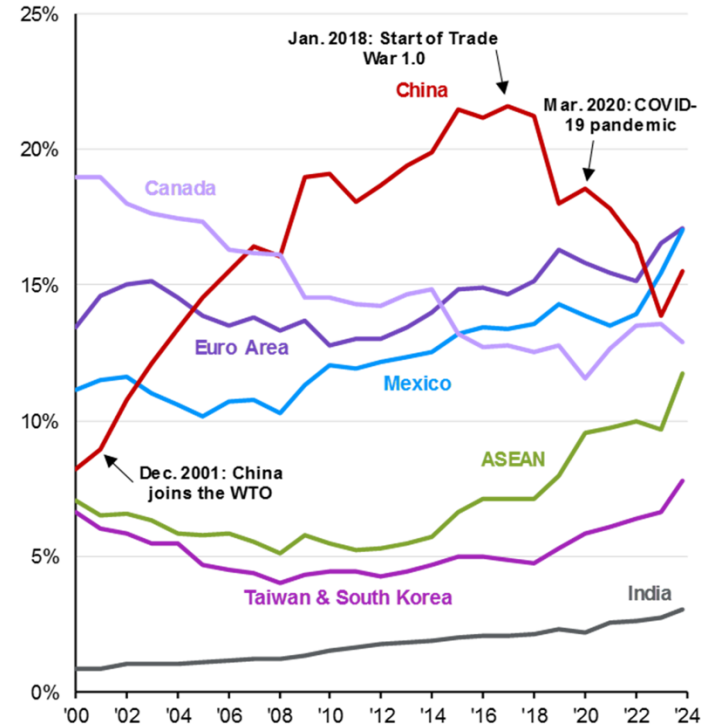
Average tariff rate on U.S. goods imports from China

Duties collected / value of total goods imports for consumption



U.S. goods imports by country

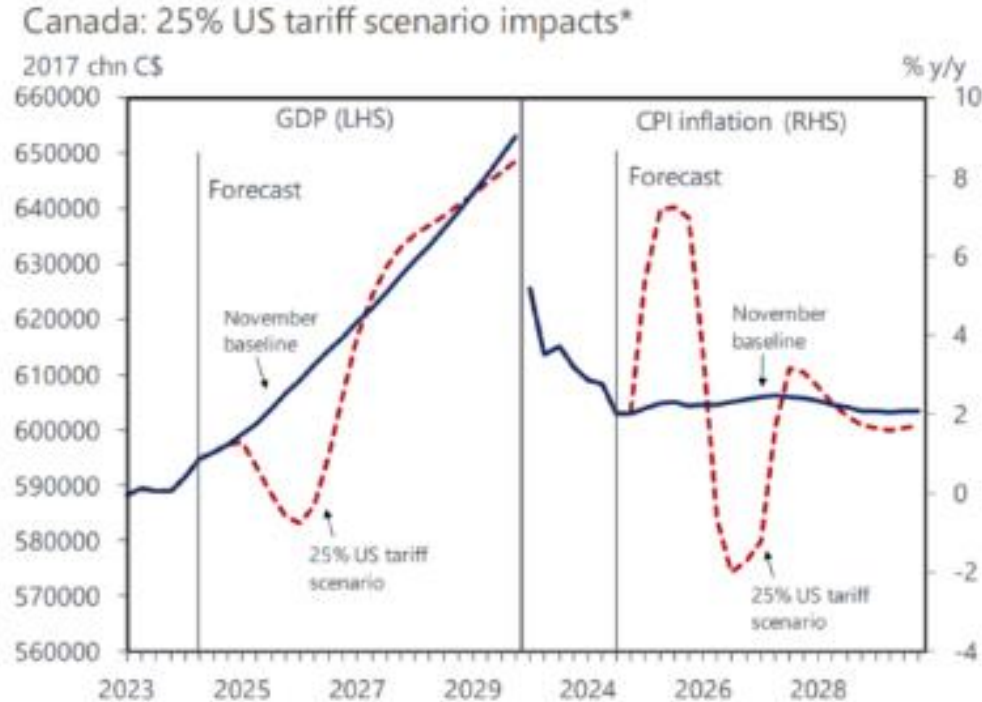
% of total U.S. goods imports, annual and YTD 2024



The US-China trade war of 2018 saw a sharp increase in tariffs on US imports from China which are largely still in place today. This caused US businesses to substitute away from Chinese suppliers in favour of suppliers from other countries.

Unlike the trade war Trump launched and quickly paused against Canada and Mexico, there appears to be no such quick resolution to the recent tariff dispute between the US and China.

Tariff Impact Analysis



Analysis from Oxford Economics in November 2024 predicts that the impact of the proposed tariffs would push the Canadian economy into recession in 2025 while also causing a spike in inflation. This is a so-called “stagflation” scenario, where the economy stagnates with no growth and has high inflation.

*Assumes 25% US tariffs on Canada and Mexico and 10% additional US tariffs on China. Canada and Mexico respond in kind, while China retaliates with less-than-proportional tariffs.

Trump Strategy



Donald J. Trump ✓
@realDonaldTrump

I am pleased to inform you that The United States of America has reached a signed agreement with Mexico. The Tariffs scheduled to be implemented by the U.S. on Monday, against Mexico, are hereby indefinitely suspended. Mexico, in turn, has agreed to take strong measures to....

8:31PM · 6/7/19

23K 40K 158K 228

Most relevant replies ▾



Donald J. Trump ✓ @realDonaldTrump · 6/7/19 ...

....stem the tide of Migration through Mexico, and to our Southern Border. This is being done to greatly reduce, or eliminate, Illegal Immigration coming from Mexico and into the United States. Details of the agreement will be released shortly by the State Department. Thank you!

14K 23K 120K

Trump declared victory on X (formerly Twitter), announcing that the US had come to an agreement with Mexico to avoid the tariffs, as Mexico had agreed to certain actions to counter illegal immigration... in 2019.

Trump appears to be using the same strategy now as he did in his first term, threatening tariffs for leverage to motivate the other party into a policy concession.

News Headlines

FOX NEWS



FOX NEWS



MEXICO

Mexico sends 15,000 troops to US border to keep migration in check, officials say

By Samuel Chamberlain · **Fox News**

Published June 24, 2019 8:49pm EDT

MEXICO

Mexico agrees to deploy 10,000 troops to US border in exchange for tariff pause

Trump admin officials are working with Mexico on a wider deal

By **Anders Hagstrom** · **Fox News**

Published February 3, 2025 10:58am EST

It's a bit unclear exactly what policy concessions Trump won from Canada and Mexico in his trade war launched over the weekend. Headlines from Fox News five years apart show that the 10,000 troops Mexico agreed to deploy to the border may be part of a force deployed in 2019.

Similarly, many of the actions Trudeau agreed to take were part of a \$1.3B border security spending package announced by the Canadian government in December 2024.

The threatened tariffs are on pause for 30 days, presumably so Trump can seek other concessions from Canada and Mexico, so we should expect more headline related volatility in markets for at least 30 days (and may well continue for Trump's entire presidency).

Gold

The price of gold, shown here in USD, broke out to new all-time highs in 2024 and hasn't looked back since. Even during the recent tariff related volatility gold rose to new highs. This could make for some interesting opportunities in gold mining stocks.



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